<u>BankBeat Community Banking Podcast</u>
<u>Episode 1: Brian Johnson</u>

<u>Jackie:</u>

This is the BankBeat Community Banking Podcast and I'm Jackie Hilgert, editor-in-chief. *BankBeat* is the online source for community banking news and opinion and is published by the same company that has, since 1992, published *NorthWestern Financial Review* magazine. Today I am at the Bank Holding Company Association's 2018 Spring Seminar, which offered a high-performance banking panel which featured three successful bankers who shared their insights into what it takes to innovate in today's environment. One of those bankers, Brian Johnson, joins us today. Brian is president and CEO of Choice Financial, a $1.3 billion organization based in Fargo, N.D. It has 18 offices in North Dakota and one in rural Minnesota. It recently announced it is acquiring Venture Bank of Bloomington, Minn., which gives it a foothold in the Twin Cities market. Choice Financial's ROA is 2.4%; its ROE is 21.53%; and its efficiency ratio is 53.12% – all outstanding numbers.

Brian, in ten years your bank has doubled, almost tripled in size; some might say you're growing faster than your market. How has that happened?

<u>Brian:</u>

Both a combination of organic growth and acquisition growth, and it's been based upon the same approach, even in drastically different ways to achieve that growth. It has just been by building relationships, whether it's been with the employees and clients on the organic growth side, or on the acquisition growth side – building relationships with partners of other banks, insurance, wealth management groups, that want to grow together and put the resources together to achieve greater scale, greater capability and hopefully a higher level of success.

<u>Jackie:</u>

You've raised about $110 million recently in private capital. How will you use this money?

<u>Brian:</u>

That's been a great story for us; it's the first time that we've gone outside to raise money, outside of our original shareholder base. It gave us a chance to market ourselves to existing communities because that money did all come locally, and we plan to spend it in the acquisition in the Twin Cities which will consume most of that capital, but will also leave us some room for some organic growth after that. That will allow us to go from $1.3 to almost $2.1 billion in terms of bank asset size.

Jackie:

In the session, you talked a little bit about the motivation for raising capital to make Choice Financial into the kind of company that will be attractive not only to the community, but also to its employees. Can you talk a little more about that?

Brian:

We are very proud of our heritage and the communities that we come from, mostly based in North Dakota, at one time, that was largely rural based. We have since diversified into the larger North Dakota markets. But when you look at the Twin Cities metro, there's roughly six times the amount of people in the metro as there are in all of North Dakota. Competition is tough everywhere, but there are more growth opportunities in the metro communities. We had a vision of looking into the five different states surrounding North Dakota: Montana, South Dakota, Iowa, Minnesota and Wisconsin. We hope to achieve a regional presence in that footprint and probably more based on the urban markets that offer the larger opportunities for growth. When you're employing that capital, you want the investor to know that their investment is going into a growing asset. It's great to be high performing, but you also achieve value for your investors through growth. We wanted to use that combination of maintaining our high performance, but as we compete on a scale level, the larger you get, the more opportunity you do have to grow in terms of reaching out to prospects and customers, and relationships from a size standpoint.

Jackie:

And why not go public?

Brian:

From an investor's standpoint, liquidity is always an issue and a concern for shareholders, especially in a privately-held company. When we raised this capital, we were built on a local community investment and so we desired to maintain that local community investment. But we do want our shareholders to have a comfort level that they do have a liquid stock with Choice Financial. And so, for us and for myself personally, the public side and one of the advantages of being public is to have liquidity in your stock, and as long as Choice can have an internal liquidity where shareholders feel comfortable, I love the benefits of managing privately; of not having to answer to analysts or private equity or quarterly results. It helps us to look a little more long-term and to be patient in those areas. If the shareholders are with you and they know you and you know them, it provides more flexibility and latitude at times. It's a great thing. It's always a topic that should be in the boardroom of an organization of our size, but there's a time and place for it. We felt that we could do this privately and fortunately the response was very positive on that end.

Jackie:

Your company has been a forefront of partnering with fintechs. You've talked about partnering with three different companies: one in New York, one in San Jose and one in Australia. Can you describe briefly what the three different companies do for you and how that partnership is working?

Brian:

What's interesting is that all three companies do drastically different things. One has an HSA-based product and they are able to scale and have essentially artificial intelligence and algorithms that have the technology to help scale the choices in the HSA business. We have the customer service capabilities, but not the technology capabilities. One of the others in Australia, they have artificial intelligence related to checking accounts; essentially a personal tracking management vehicle for consumers so they not only know what they're spending their money on, but it'll actually educate and gear the consumer towards prudent financial decisions. That is very attractive as well, especially amongst the millennial generation since they seem to have a great interest in that. The other company is a prepaid debit card scenario that is more youth based. It allows parents and youth to have a rewards system of achieving certain goals; the youth are rewarded with a deposit to a debit card, which ultimately gets traced back to the parents so they know what their child is spending their money on and putting their money towards. It's a teaching vehicle that is an alternative to credit cards in terms of getting young people under the age of 18 to start managing their own finances, being financially responsible. All three of these components are part of our core values for financial responsibility and when you look at it from an overall perspective it hits different demographics, different age groups and different levels of financial accountability for each of them. We want to build a reputation of not only doing business, but helping our consumers do good business. It's been a great experience – my team has done a phenomenal job of building these relationships. Some of them may be big, some small and some in between, but they're all important to the consumer. I think of where the technology of our industry is going and we need to be open to being part of that technology and not being left on the side. What's great is that these companies want to do business in North Dakota and Minnesota – they're very open to doing business with people from the Midwest; they're attracted to our values of business. So far it seems to be a great match for us and something we hope to continuously grow.

Jackie:

This has been the BankBeat Community Banking Podcast. Our sponsor for this edition is the Bank Holding Company Association. Information on the BHCA or a list of its upcoming events, visit www.theBHCA.org.

This transcript has been lightly edited for clarity.